

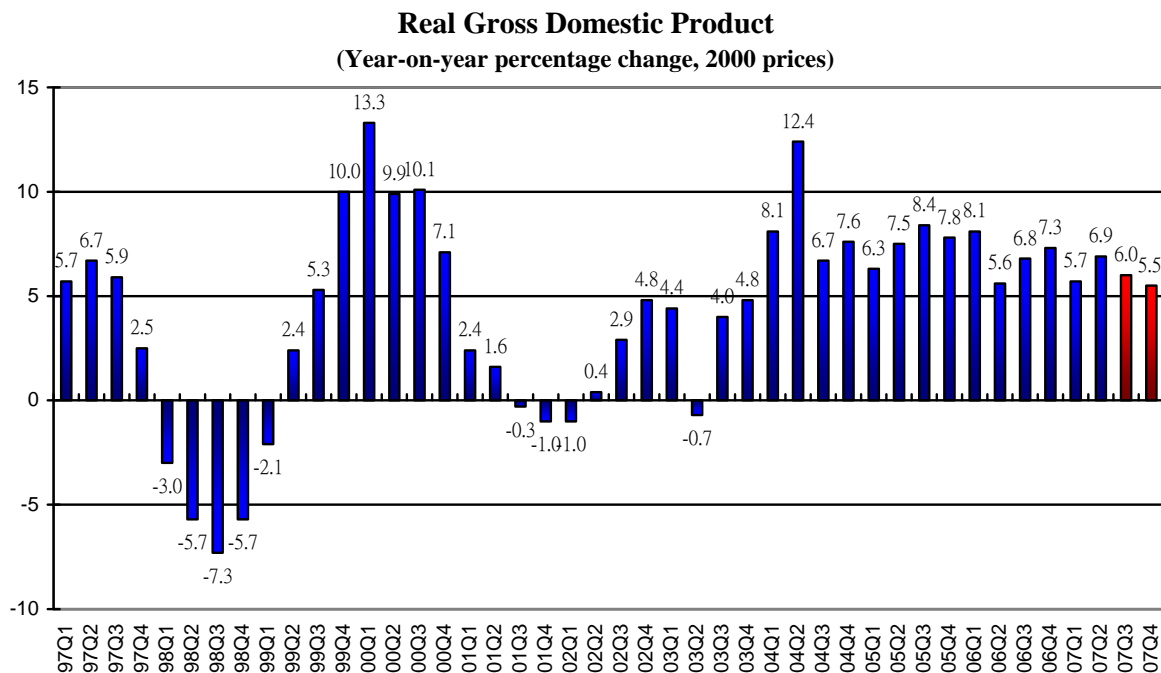


*For Immediate Release*

## HKU Announced 2007 Q4 HK Macroeconomic Forecast

### Hong Kong Economic Outlook

The APEC Study Center of the University of Hong Kong (HKU) released its quarterly Hong Kong Macroeconomic Forecast today (October 3). According to its High Frequency Macroeconomic Forecast, real GDP growth in Q3 of 2007 is estimated to be 6.0% on a year-on-year basis. This growth estimate is an upward revision of the 5.2% forecast released on July 4, 2007 due to the stronger growth in both private consumption spending and fixed capital formation. In the fourth quarter of 2007, real GDP growth is forecast to moderate to 5.5% when compared with the same period last year.



Professor Richard Wong Yue-Chim, Professor of Economics at HKU said that, "Despite the recent turmoil in the global credit market, and a slight weakening in global economic growth, Hong Kong's economy is expected to grow with real GDP rising by 5.7% in the second half of this year, dropping from the 6.3% growth in the first half. For the year as a whole, real GDP is forecast to grow by 6.0%. Local demand is the primary growth driver and accounts for 5.0 percentage points of the overall growth."

"The unemployment rate is expected to drop slightly to 4.0% in the current quarter. Coupled with the robust growth in domestic demand, external factors, such as the weakening of the US dollars, rising oil prices and surging food prices in the Mainland, are pushing consumer prices upward. Inflation rate is forecast to accelerate to 3.2% in the current quarter," according to Dr. Alan Siu, Director of the APEC Study Center at HKU.

The forecast details are in Table 1 and Table 2, and the forecasts of selected monthly indicators are in Table 3. All growth rates reported are on a year-on-year basis.

## **Forecast Highlights**

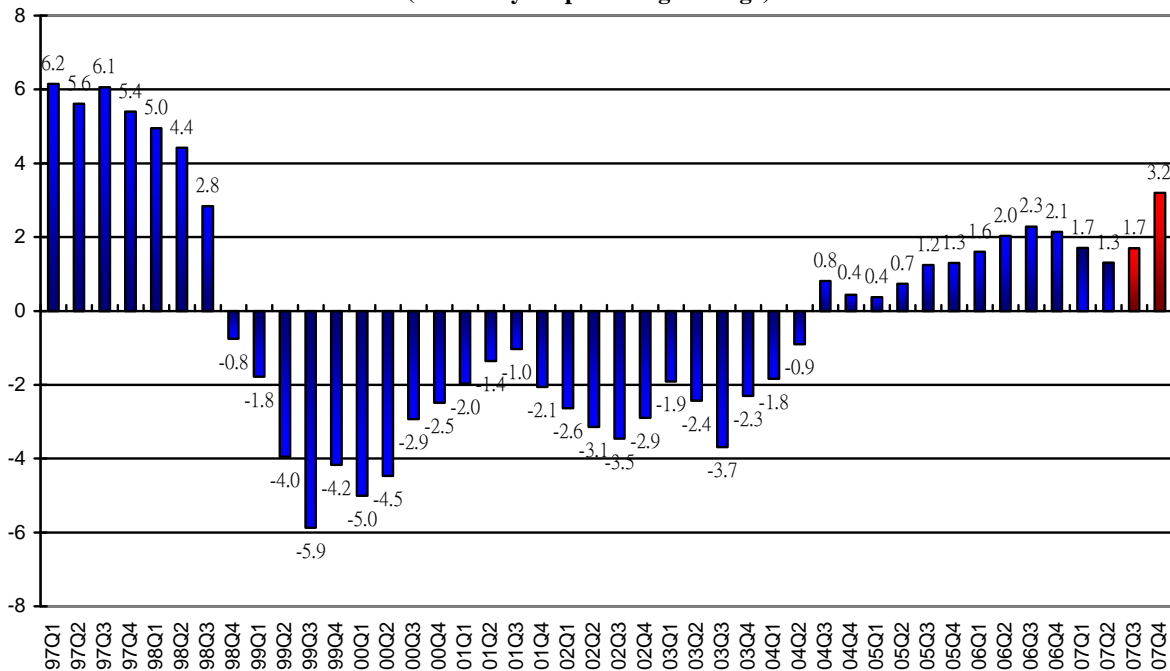
The highlights of our current forecasts are:

- Private consumption spending grew by 6.6% in Q2, up from the 5.3% growth in Q1. This strong consumption growth is underpinned by the steady improvement in employment and labour income. The surge in the stock market helps to strengthen the expectation of a positive economic outlook. Private consumption expenditure is estimated to grow by 6.6% in Q3 and 6.0% in Q4. For the year as a whole, private consumption spending is forecast to grow by 6.1%, accounting for half of the total GDP growth for the current year.
- The volume of retail sales in July 2007 registered a broad-based increase of 12.1% when compared with same period last year. Buoyed by improving consumer sentiment, retail sales of consumer durable goods, jewellery and clothing rose by 33.5%, 20.1% and 8.8%, respectively. The volume of retail sales is forecast to grow by 12.5% in Q3 and 12.1% in Q4 of 2007. For 2007 as a whole, it is projected to rise by 9.8%.

- Total exports of goods grew more quickly by 11.3% in Q2, from the 8.2% growth in Q1. It is expected to continue to grow in the second half of 2007 but at a slower rate reflecting the slowdown in external demand. The growth in total exports of goods is estimated to be 8.3% in Q3 and forecast to be 7.4% in Q4. For the year as a whole, total exports are projected to grow by 8.7% in 2007.
- Domestic exports declined by 17.8% in Q2. The contraction is projected to continue in the second half of 2007, dropping by 20.3% in Q3 and 6.6% in Q4. Domestic exports are forecast to fall by 19.8% in 2007 for the year as a whole.
- The weakening of the US dollar boosted the growth of re-exports to 13.1% in Q2, accelerated from the 11.0% in Q1. Further expansion is expected but at a more moderate rate. It is estimated to grow by 10.0% in Q3 and 8.0% in Q4. For the year as a whole, it is projected to grow by 10.4% which is the sixth consecutive year of double-digit growth since 2002.
- Service exports grew by 10.9% in Q2. The number of visitor arrivals increased by 12.3% in July 2007, when compared with the same period last year. More than two-thirds of this growth can be attributed to the surge in the number of visitors from the Mainland which rose by 16.2% in July. Strong export of goods also boosted the export of trade-related services. Service exports is forecast to expand by 9.2% and 9.3% in Q3 and Q4, respectively. The annual growth is estimated to be 9.6% in 2007.
- Concomitant to the strong growth in re-exports, the imports of goods grew by 12.9% in Q2. Reflecting a weakening in external demand, the growth of imports of goods is forecast to moderate to 9.1% in Q3 and 7.7% in the current quarter. The growth is projected to be 9.5% for 2007.
- Import of services increased by 8.0% in Q2. Service imports is forecast to grow by 6.0% and 7.5% in Q3 and Q4, respectively. It is estimated to grow by 6.4% in the whole year of 2007.
- The trade balance, as measured by the net exports of goods and services, is estimated to be 12.3% of GDP in Q2. It is forecast to be 20.4% of GDP in Q3 of 2007, 20.7% of GDP in the current quarter and 17.4% of GDP for the year of 2007.

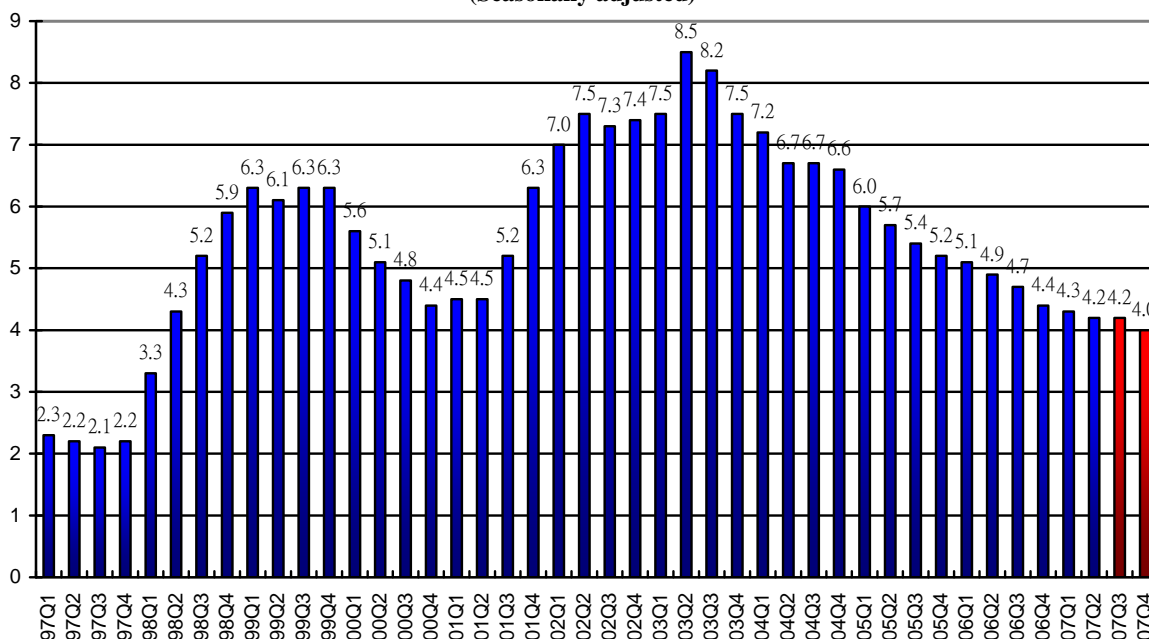
- Gross fixed capital formation rose by 11.1% in Q2 of 2007. Given the positive economic outlook and falling capital costs, spending on capital goods is expected to continue to grow. It is estimated to grow by 5.9% in Q3 and 6.0% in Q4 of 2007. The annual growth is estimated to be 6.9%.
- Investment in land and construction increased by 6.8% in Q2 of 2007. The investment in land and construction is forecast to go up by 2.0% in Q3 and by 2.2% in Q4 of 2007. The annual increase of 2007 is estimated to be 2.9%.
- Investment spending in machinery, equipment and computer software surged by 13.1% in Q2 of 2007. Underpinned by the expectation of continued economic growth, machinery and equipment investment growth is expected to remain strong in the second half of this year. It is estimated to grow by 7.5% in Q3, 7.6% in Q4 and 8.7% for the year as a whole.

**Composite Consumer Price Index**  
(Year-on-year percentage change)



- Inflation, as measured by the year-on-year percentage change of the Composite CPI, grew by 1.3% in Q2, less than the 1.7% increase in Q1. The Composite CPI rose by 1.7% in August. Powered by surges in meat and poultry prices (up 49%) and egg prices (up 23.4%) in China in August, the price of food (excluding meals away from home) rose sharply to 7.7% and accounted for half of the overall increase in the consumer price level in August. If there were no rates waiver, the measured inflation rate would have been 2.7% in August, highest since September 1998. The recorded consumer inflation rate is estimated to be 1.7% in Q3. With the end of the rates concession, the inflation rate will pick up to 3.2% in the current quarter. For the year as a whole, inflation is expected to be 2.0%.

**Unemployment Rate**  
(Seasonally adjusted)



- The provisional seasonally adjusted unemployment rate slightly increase from 4.1% in the three months average ending in July 2007 to 4.2% for the three months ending in August 2007. The median duration of unemployment reduced from 77 days in Q1 to 74 days in Q2. The employment outlook is positive. The unemployment rate forecast to be 4.2% in Q3 of 2007, and drop to 4.0% in the current quarter.

## **Concluding Remarks**

Riding on the back of global economic expansion and the rapid growth in the Mainland, Hong Kong is set to enjoy another year of above-trend economic growth since 2003, with its real GDP growing by an estimated 6.0% in 2007, following the 8.6%, 7.5% and 6.9% growth in 2004, 2005 and 2006, respectively. After four consecutive years of strong economic growth, Hong Kong is now facing increasing inflationary pressure. With its economy operating at high gear, continued weakening of the US dollar and lower interest rates, both consumer and asset prices are expected to rise further. Another major concern is the slowdown in the global economy triggered by the recent turmoil in the credit market and adjustments in the US housing market. The half percentage point cut in the Fed rate appeared to stabilize the credit market, and provided support to US export sectors. Further monetary easing is expected to soften the slowdown in growth.

## **About Hong Kong Macroeconomic Forecast Project**

The Hong Kong Macroeconomic Forecast is based on research conducted by the APEC Study Center of the HKU's Faculty of Business and Economics. It aims to provide the community with timely information useful for tracking the short-term fluctuations of the economy. The current quarter macro forecasts have been released on a quarterly basis since 1999.

The high frequency forecasting system was originally developed in collaboration with Professor Lawrence Klein of the University of Pennsylvania in 1999-2000. Since then, the system has been maintained and further refined by the HKU APEC Study Center.

The project is sponsored by the Faculty of Business and Economics. The Hong Kong Centre for Economic Research at HKU provides administrative support to the project. Researchers at the APEC Study Center are solely responsible for the accuracy and interpretation of the forecasts. Our quarterly forecasts can be accessed at <http://www.hku.hk/apec/>

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October 3, 2007

**High Frequency Macroeconomic Forecasts**  
**APEC Study Center**  
**The University of Hong Kong**

Table 1: Current Quarter Model Forecast  
(Million of 2000 Dollar)

	2006			2007				
	Q3	Q4	Annual	Q1	Q2	Q3 (forecast)	Q4 (forecast)	Annual
Gross Domestic Product	448,096	468,477	1,735,882	432,582	438,498	474,987	494,090	1,840,157
Private Consumption Expenditure	223,460	236,125	903,740	229,899	240,707	238,098	250,224	958,928
Government Consumption Expenditure	31,990	33,043	130,118	35,753	31,006	32,950	34,034	133,743
Total Export of Goods	717,181	729,322	2,664,804	633,484	703,967	776,457	783,155	2,897,063
Domestic Export of Goods	42,202	33,095	150,785	25,055	31,276	33,650	30,927	120,908
Re-export of Goods	674,979	696,227	2,514,019	608,429	672,691	742,807	752,228	2,776,154
Import of Goods	708,504	724,375	2,672,573	646,403	727,442	772,625	779,896	2,926,366
Export of Services	152,630	157,178	573,176	144,269	145,159	166,712	171,781	627,921
Import of Services	69,391	67,548	261,338	64,300	67,653	73,569	72,647	278,169
Gross Fixed Capital Formation	104,034	104,583	399,599	98,554	107,692	110,211	110,881	427,338
GFCF in Land & Construction	30,320	30,858	122,656	31,574	32,137	30,932	31,536	126,179
GFCF in Machinery & Equip.	73,714	73,725	276,943	66,980	75,555	79,279	79,345	301,159
Changes in Inventories	-3,304	149	-1,644	1,326	5,062	-3,246	-3,441	-299

Date of Forecast: Sep 27, 2007



**High Frequency Macroeconomic Forecasts**  
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Table 2: Current Quarter Model Forecast  
Year-on-Year Growth Rate (%)

	2006			2007				
	Q3	Q4	Annual	Q1	Q2	Q3 (forecast)	Q4 (forecast)	Annual (forecast)
Gross Domestic Product	6.8	7.3	6.9	5.7	6.9	6.0	5.5	6.0
Private Consumption Expenditure	4.6	5.4	5.2	5.3	6.6	6.6	6.0	6.1
Government Consumption Expenditure	-1.1	2.3	0.2	2.4	2.8	3.0	3.0	2.8
Total Export of Goods	8.9	11.7	10.2	8.2	11.3	8.3	7.4	8.7
Domestic Export of Goods	-3.2	-30.4	2.3	-33.1	-17.8	-20.3	-6.6	-19.8
Re-export of Goods	9.8	15.0	10.7	11.0	13.1	10.0	8.0	10.4
Import of Goods	8.5	11.4	10.0	8.6	12.9	9.1	7.7	9.5
Export of Services	8.9	9.0	8.9	8.9	10.9	9.2	9.3	9.6
Import of Services	5.2	6.5	6.4	4.1	8.0	6.0	7.5	6.4
Gross Fixed Capital Formation	10.3	9.4	7.9	4.7	11.1	5.9	6.0	6.9
GFCF in Land & Construction	-8.5	-1.7	-8.4	0.6	6.8	2.0	2.2	2.9
GFCF in Machinery, Equip. & Computer Software	20.4	14.9	17.2	6.8	13.1	7.5	7.6	8.7
GDP Deflator Growth Rate	-0.4	-0.4	-0.3	0.9	0.7	0.0	0.0	0.4
CPI (Composite) Inflation Rate	2.3	2.1	2.0	1.7	1.3	1.7	3.2	2.0
Unemployment Rate	4.7	4.4	4.8	4.3	4.2	4.2	4.0	4.2
Date of Forecast: Sep 27, 2007								

# High Frequency Macroeconomic Forecasts

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Table 3: Selected Monthly Indicators  
Year-on-Year Growth Rate (%)

	2007											
	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
Unit Value Trade Index (Domestic Exports)	0.0	0.8	0.4	0.8	0.8	0.4	0.7	0.8	0.9	0.9	0.6	0.4
Unit Value Trade Index (Imports of Foodstuffs)	4.3	5.2	5.2	6.5	5.5	6.2	6.7	7.1	6.3	6.3	5.3	4.7
Unit Value Trade Index (Imports of Consumer Goods)	1.7	2.3	2.9	3.3	3.2	3.1	3.7	3.4	3.9	4.4	4.7	4.7
Unit Value Trade Index (Imports of Raw Materials & Semi-Manufactures)	4.3	4.1	2.2	3.7	2.4	1.8	1.1	1.1	1.1	1.0	0.5	0.4
Unit Value Trade Index (Imports of Fuels)	1.0	0.8	4.1	-0.5	-0.9	-3.9	4.2	7.3	12.6	19.6	27.8	36.8
Unit Value Trade Index (Imports of Capital Goods)	1.4	1.3	2.1	-0.1	0.2	-0.6	-0.2	-0.1	-0.5	-0.7	0.0	0.0
Real Retained Imports of Foodstuffs	12.6	-2.0	2.8	2.1	0.4	11.0	8.7	8.8	9.1	8.3	4.0	16.3
Real Retained Imports of Consumer Goods	74.2	-59.6	21.2	-3.8	6.3	3.2	2.9	6.6	1.1	14.5	3.0	11.6
Real Retained Imports of Raw Materials & Semi-Manufactures	9.5	-12.4	16.2	15.2	20.2	26.5	37.8	28.7	39.0	41.9	21.0	15.6
Real Retained Imports of Fuels	4.5	15.9	-1.2	44.2	-9.8	45.3	8.2	5.8	21.6	0.5	-15.0	26.7
Real Retained Imports of Capital Goods	12.7	-37.2	12.8	20.8	-17.4	-1.3	-22.1	-15.8	-16.5	-11.1	-15.3	-24.2
Total Motor Vehicles Newly Registered	23.8	-13.8	-14.2	6.1	17.9	20.4	31.0	11.7	23.4	23.7	29.3	29.5
Private Cars Newly Registered	29.5	-6.7	-14.2	2.1	21.1	24.1	46.8	17.0	29.6	28.1	31.3	36.4
Volume Index of Retail Sales	-4.9	25.3	3.5	1.7	9.4	12.8	12.1	11.6	13.9	13.6	13.9	9.4
Money Supply (M2)	15.8	15.9	16.6	13.1	9.6	20.8	17.3	17.2	17.5	18.1	12.1	16.7
Loans and Advances	10.1	10.0	14.8	9.3	3.3	18.3	12.4	14.2	12.5	13.4	6.8	16.1
Visitors Arrivals	-1.0	18.2	2.9	2.3	12.6	7.7	12.3	13.7	22.5	20.1	22.1	15.8
Hong Kong Resident Departures	-6.5	15.4	6.3	2.6	5.3	8.7	6.8	5.6	6.1	4.5	7.8	6.7
Electricity Consumption	4.9	-4.1	2.2	-4.4	2.1	11.0	5.0	3.1	13.9	12.7	14.6	9.6
Gas Consumption	-2.3	0.0	-1.9	1.7	4.0	0.2	-1.4	-0.9	-0.2	0.4	-0.1	1.0

Date of Forecast: Sep 27, 2007